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Easing at the Zero Bound: Beyond QE & the “Foolproof Way”

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Origins of a Currency War, The “Foolproof Way” to Ease Monetary Drivers of Fed Policy

Monetary Analysis

$P \cdot Q$ = Nominal GDP

Q = Real GDP

P = Inflation/Deflation

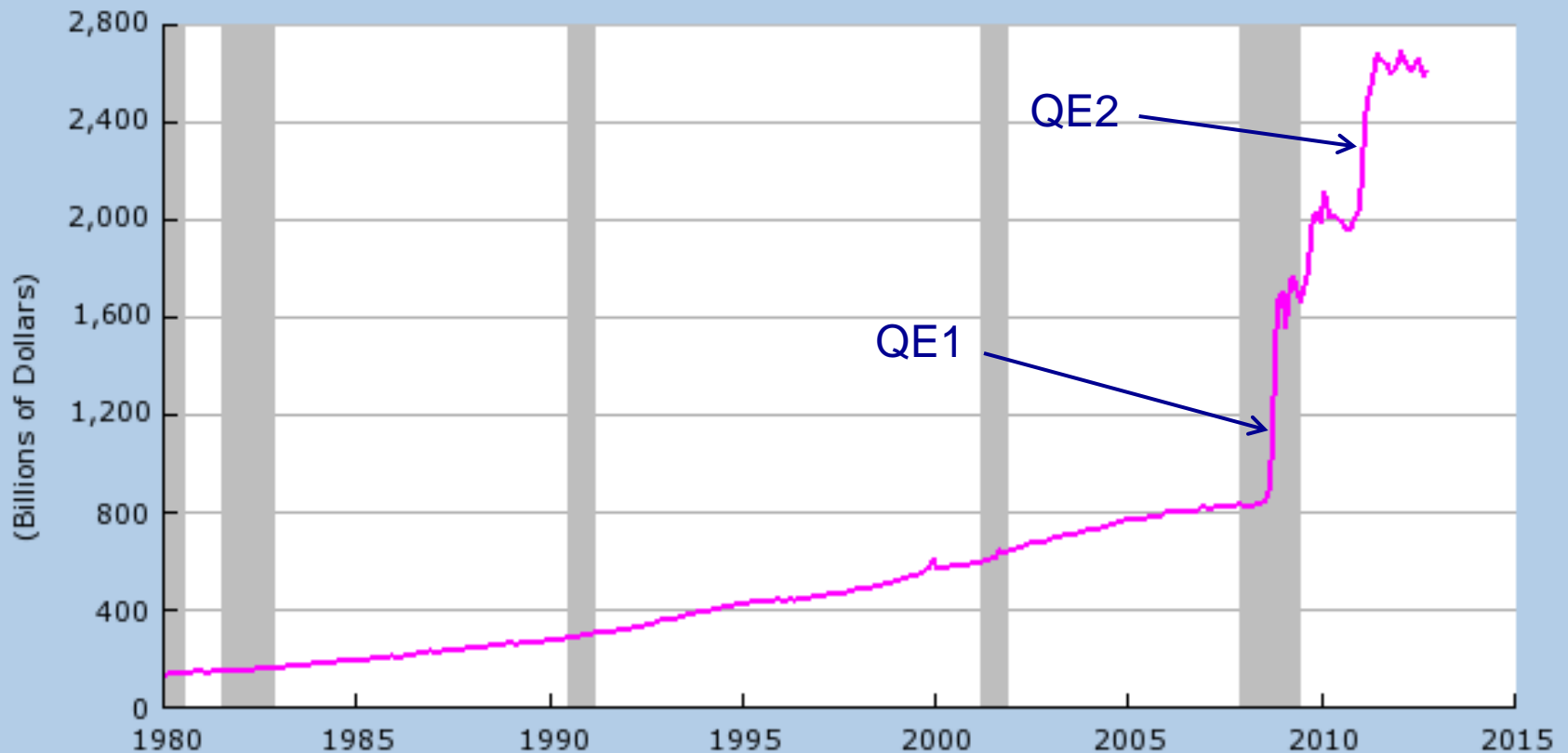
M = Money supply

V = Velocity of money

$$M \cdot V = P \cdot Q$$

Fed Expansion of U.S. Money Supply

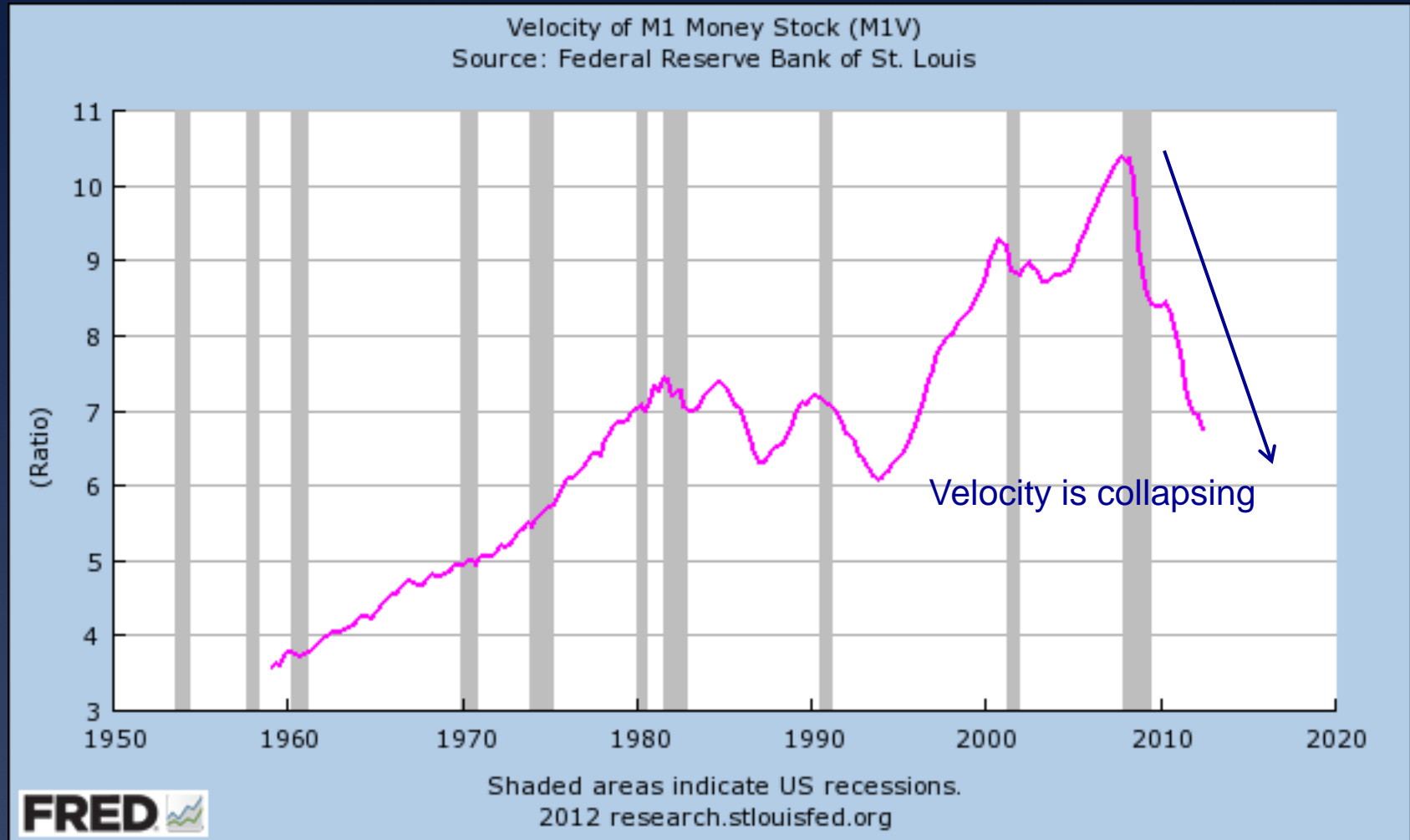
Board of Governors Monetary Base, Adjusted for Changes in Reserve Requirements (BOGAMBNS)
Source: Board of Governors of the Federal Reserve System



Shaded areas indicate US recessions.
2012 research.stlouisfed.org



Velocity of Money Both Volatile and Declining Sharply



Fed Must Bend the Velocity Curve

Changing Velocity is a Socio-Psychological Task

Primary Tools are:

Negative Real Interest Rates

e.g. Nominal Rates of 2% and Inflation of 4% =
Real Interest Rate of **-2%**

Inflation Expectations Shock

e.g. Expectations of 2% inflation and actual inflation
of 4% causes an inflationary shock

Both Tools Require 4% Inflation

How Does Fed Achieve 4% Inflation?

- ✓ Cutting Interest Rates (2007)
- ✓ Quantitative Easing (2008)
- ✓ Communications Policy (2008)
 - ✓ Currency Wars (2010)
 - ✓ Operation Twist (2011)
- ✓ Nominal GDP Targets (2012)
 - ✓ Try Harder (2013)

Monetary Math is Easy!

$$1 + 4 = 5$$

$$4 + 1 = 5$$

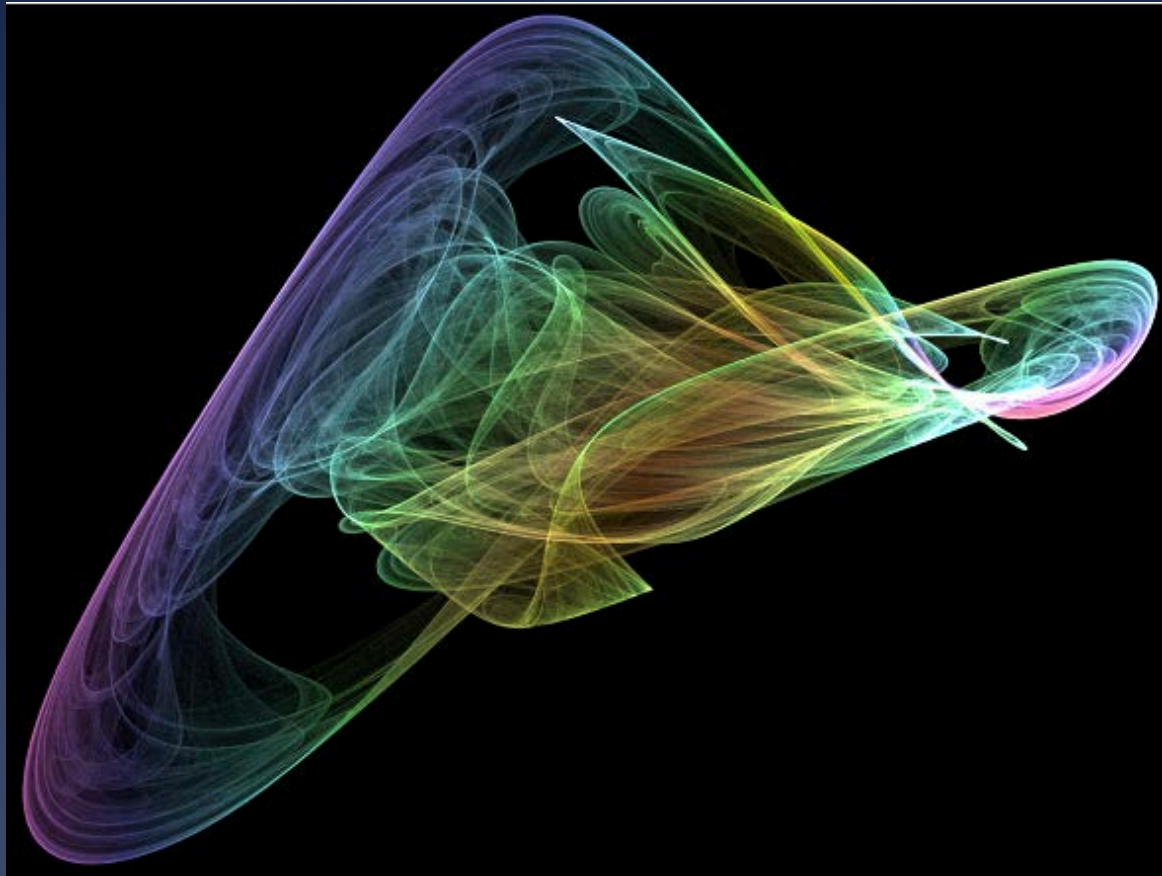
Nominal debt requires nominal GDP growth

The G4 Solution to Currency Wars – U.S., UK, Japan, Europe Ease Together The Year of the Snake Redux



Problems: Europe, Emerging Markets, Inflation

What Could Possibly Go Wrong?



Fed Misapprehends the Statistical Properties of Risk in Currency and Capital Markets



Fed and other central banks persist in using equilibrium models

Evidence for complexity and non-equilibrium states is convincing

Are Capital Markets Complex Systems?

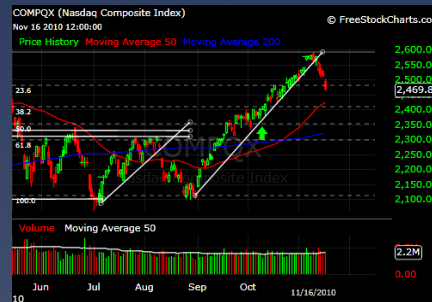
* Diversity



* Connectedness



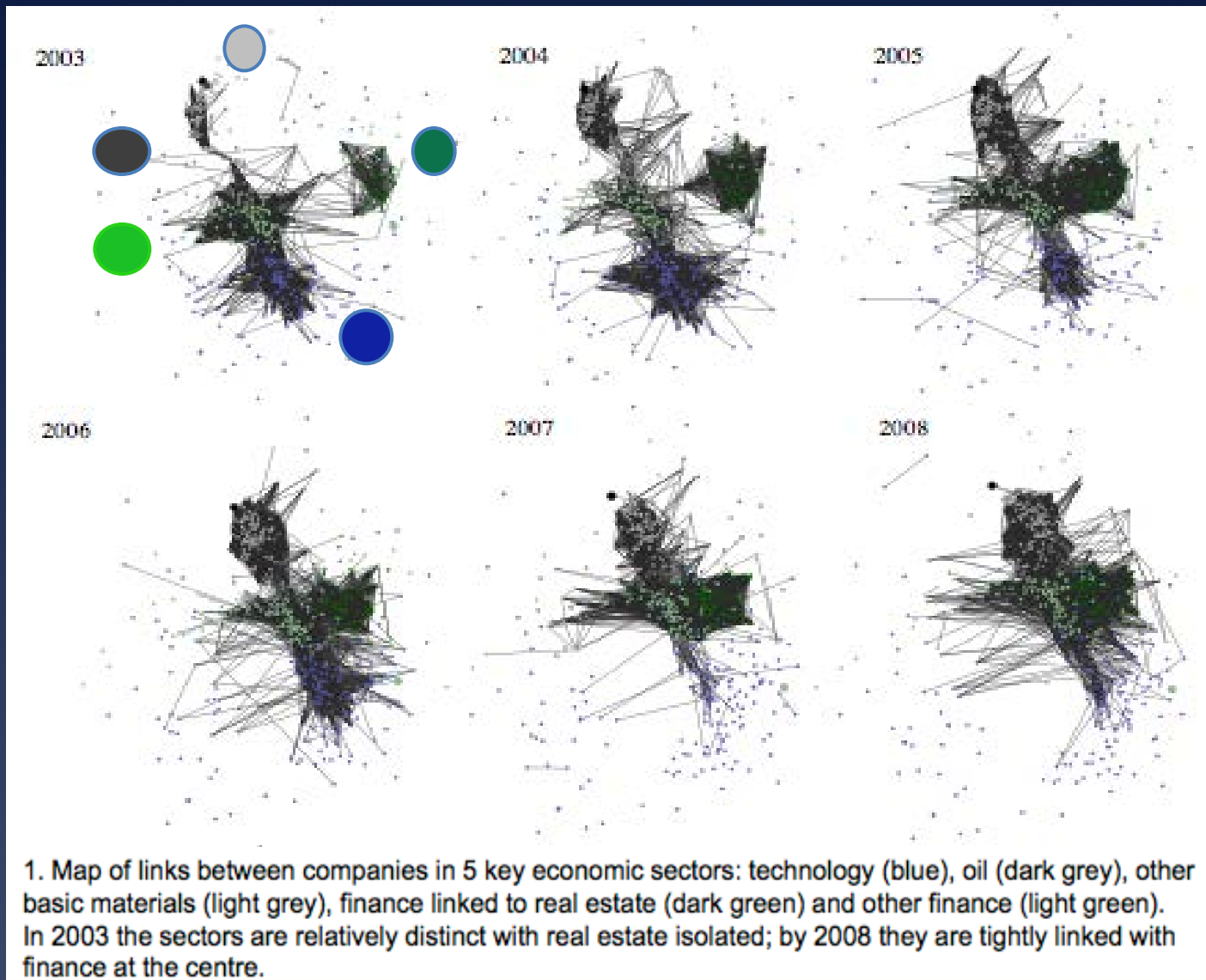
* Interaction



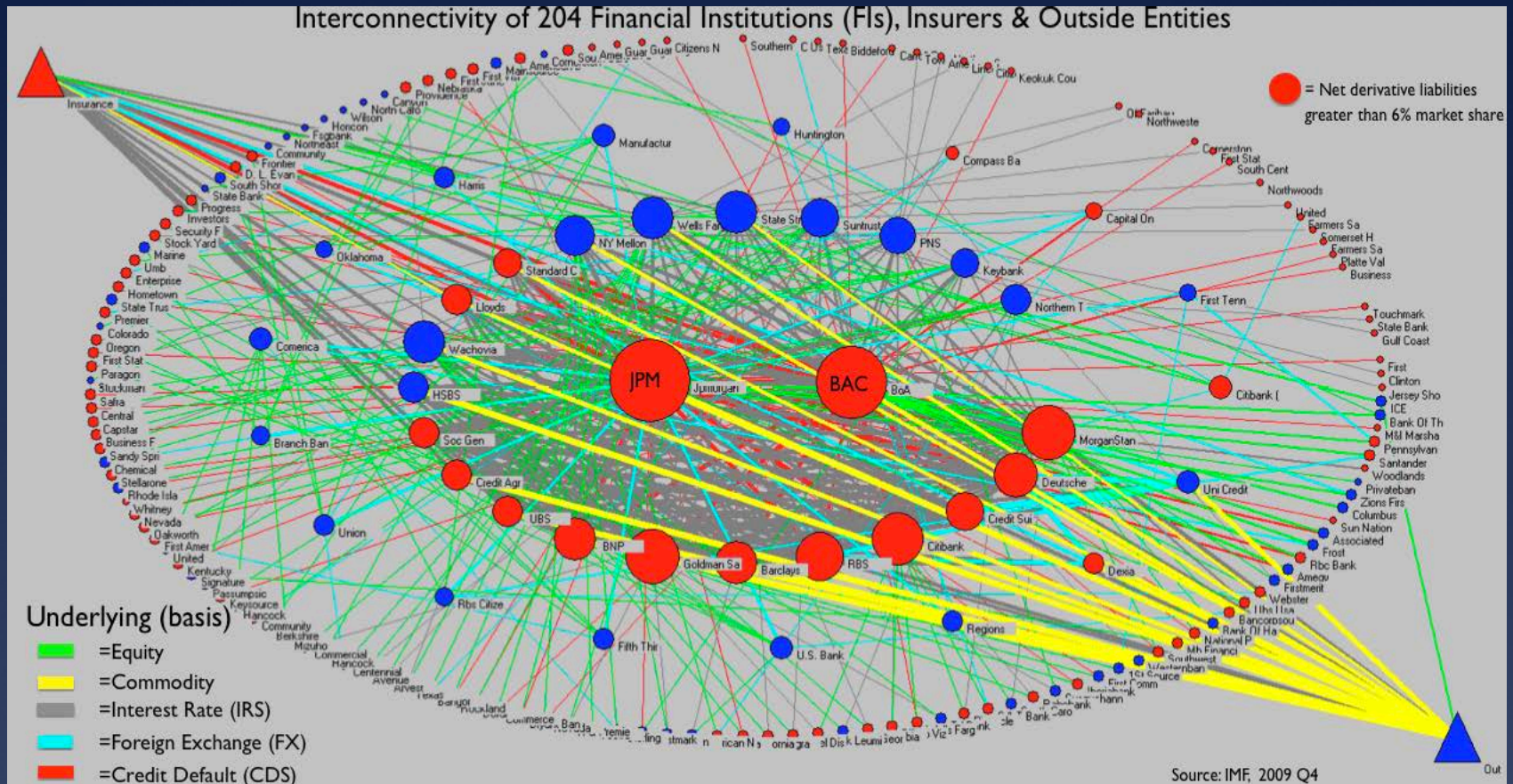
* Adaptability



How Connected are we? How close to the Critical State?



Interconnectivity of Financial Institutions, Insurers and Other Entities



Caveat: Relative size and density shown on a *net* rather than *gross* basis

Source: *Systemic Risk from Global Financial Derivatives*, Sheri M. Markose, IMF Working Paper WP/12/282

The Future of the International Monetary System

Multiple Reserve Currencies

SDR's



Gold

Collapse



A World of Multiple Reserve Currencies



- * Reprises 1920's and 1930's per Barry Eichengreen
- * U.S. Dollar Declined from 70% to 60% of Global Reserves between 2000 and 2012
- * Future Reserve Mix could be 35% USD, 35% EUR, 10% JPY, 20% GBP, CNY, CHF, CAD, AUD, other
- * Dynamically unstable without an anchor
- * Solves no problems, creates new one

The SDR Solution



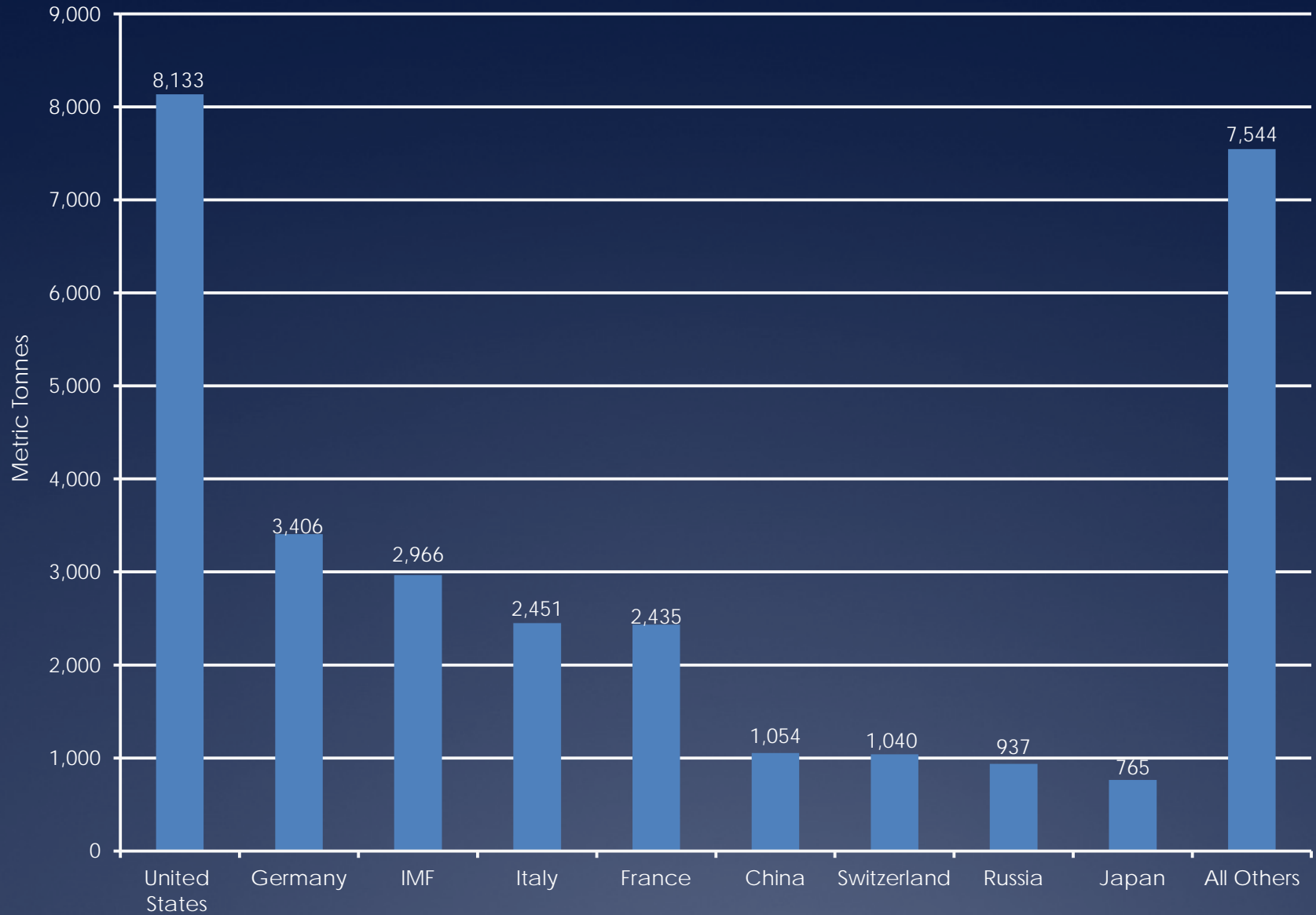
- * Introduced 1969. Issued in 1972, 1981, 2009
- * Obviated in 1980's by commercial banks
- * Preferred path of the power elites
- * Ten-year plan includes issuers, buyers, dealers, repo, derivatives and new allocations
- * SDR's will not be local currency, but used for oil, global corporations, balance of payments
- * Turns IMF into proto-world central bank with currency and expanded balance sheet

A New Gold Standard

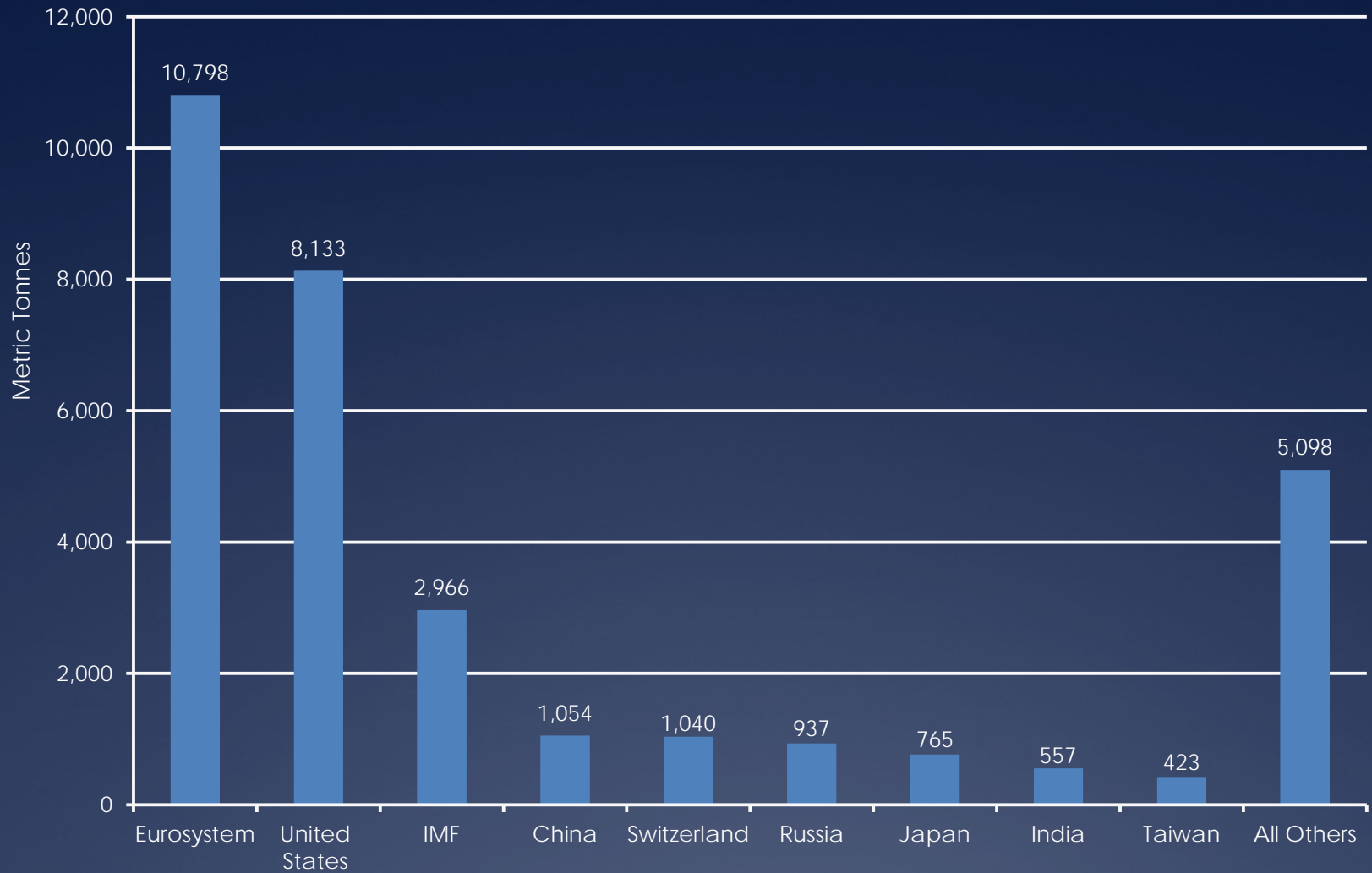


- * What is a Gold Standard?
- * What is the proper measure of Money?
- * What is the proper reserve ratio?
- * Which nations are included?

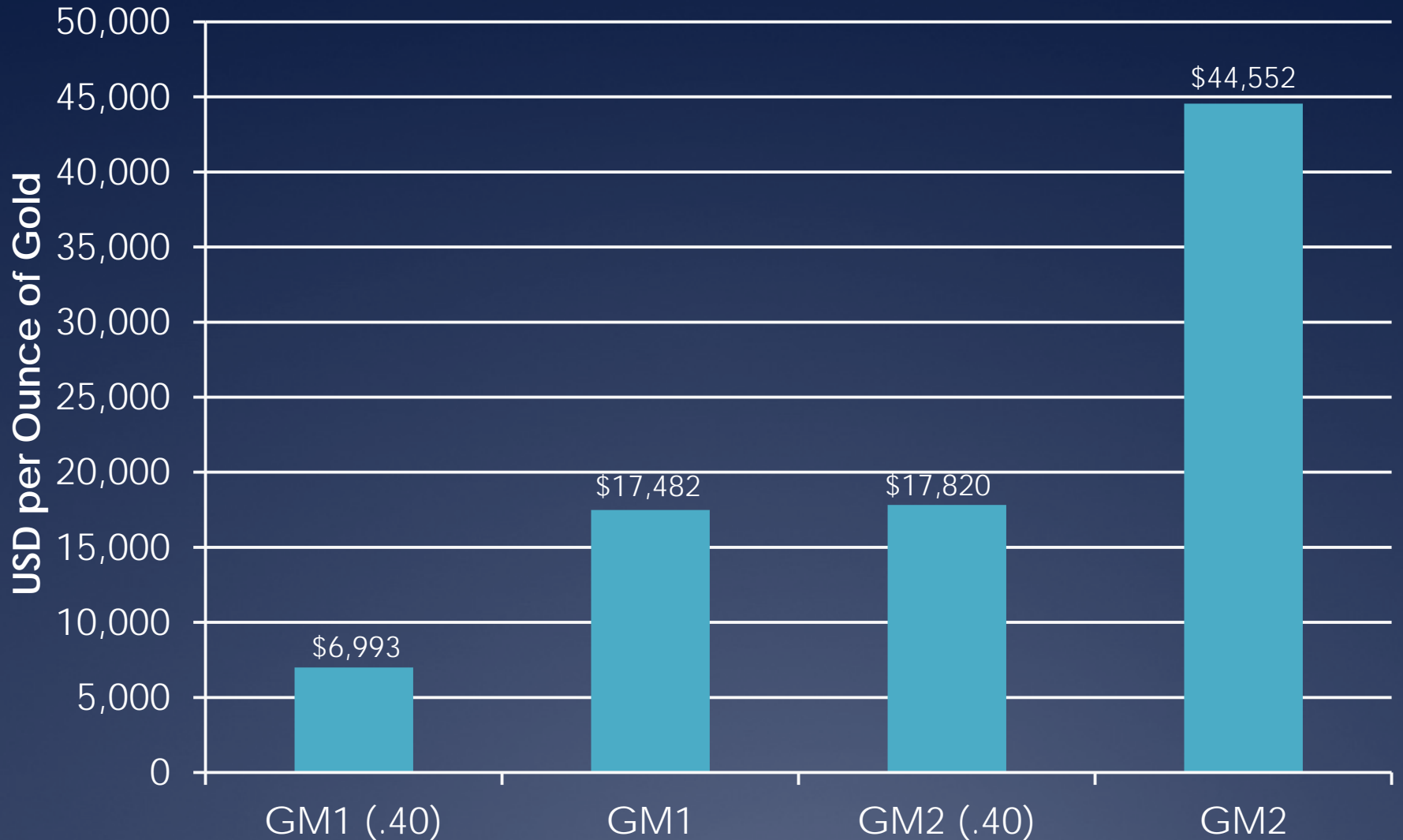
Official Gold Holdings – Total 30,731 Metric Tonnes



Holdings with Eurosystem – Total 30,731 Metric Tonnes



Gold Prices Based on Global Monetary Aggregates (US, ECB, China)



What Happens When Gold is the Numeraire?

The S&P500 Index in Gold Ounces



Collapse



Thriving in a world of inflation, currency wars and potential collapse

Long

Banco Santander (ADR) (NYSE:SAN) – On Euro, TBTF, LatAM

Bank of Ireland (ADR) (NYSE:IRE) – On Euro, TBTF

Gold – Physical or non-bank fund will allocated bars

Fine Art – Twentieth Century Masters Collection – Sandy Kemper

Currencies: EUR, SGD, AUD, CAD, KRW

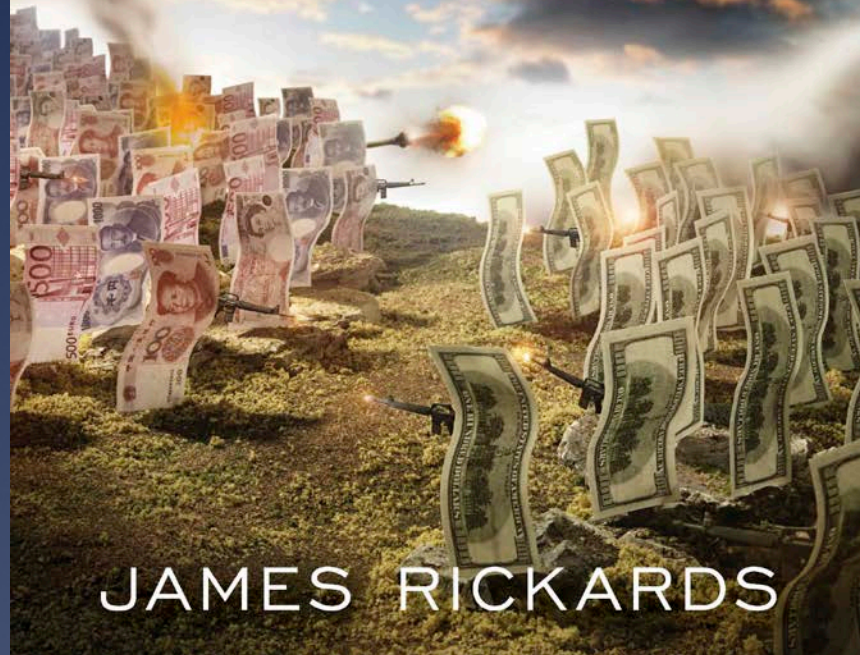
Short

JPMorgan Chase & Co (NYSE:JPM) – Poor risk management

Currencies: USD, GBP, JPY, BRL

CURRENCY WARS

THE MAKING OF THE NEXT
GLOBAL CRISIS



Thank you

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